

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
DANIEL F. SULLIVAN**



**DOCKET NO. 2006-97-W/S
APPLICATION OF
TEGA CAY WATER SERVICE, INC.
FOR ADJUSTMENT OF RATES AND CHARGES**

TESTIMONY OF DANIEL F. SULLIVAN**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2006-97-W/S****IN RE: TEGA CAY WATER SERVICE, INC.**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Daniel F. Sullivan. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff (“ORS”) as an Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received a B.S. Degree in Business Administration, with a major in Accounting from the University of South Carolina in December 1998. From February 1999 to February 2005, I was employed with the South Carolina State Auditor’s Office. In that capacity, I performed audits and reviews of cost reports filed by institutional providers of Medicaid services for the South Carolina Department of Health and Human Services. The primary purpose of those audits and reviews was to establish the applicable reimbursement rates to be paid to Medicaid providers for services rendered to qualified Medicaid recipients. In February 2005, I began my employment with ORS.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING TEGA**
2 **CAY WATER SERVICE, INC?**

3 A. The purpose of my testimony is to set forth my findings and recommendations
4 resulting from ORS's review of the application of Tega Cay Water Service, Inc.
5 ("TCWS") in this docket.

6 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**
7 **TESTIMONY.**

8 A. I have attached ORS's Audit Report related to TCWS's application for a rate
9 increase, Docket No. 2006-97-W/S. The contents of the Audit Report were either
10 prepared by me or were prepared under my direction and supervision in compliance
11 with recognized accounting and regulatory procedures for water and wastewater
12 utility rate cases.

13 **Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT.**

14 A. As outlined in the Index of the Audit Report, pages 1-5 contain the analysis of
15 TCWS and its application. The remaining pages consist of exhibits which were
16 prepared to show various aspects of TCWS's operations and financial position. The
17 majority of my testimony will refer to Audit Exhibit DFS-1 - Operating Experience,
18 Rate Base and Rates of Return – Combined Operations as shown on page 6 of the
19 Audit Report.

20 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT DFS-1.**

21 A. Column (1) shows per book balances for TCWS as of September 30, 2005. I verified
22 the per book balances to the books and records of TCWS.

1 Column (2) shows accounting adjustments related to Docket No. 1996-137-W/S that
2 affect the per book numbers.

3 Column (3) shows the adjusted per books after various adjustments concerning
4 Docket No. 1996-137-W/S.

5 Column (4) shows accounting and pro forma adjustments designed to normalize
6 TCWS's adjusted per book operations.

7 Column (5) shows the computation of TCWS's normalized test year prior to
8 implementing the proposed increase.

9 Column (6) shows the adjustments for the requested rate increase and ORS's
10 adjustments associated with the additional revenues.

11 Column (7) shows our computation of the normalized test year after accounting and
12 pro forma adjustments, the requested rate increase and associated adjustments.

13 **Q. PLEASE ELABORATE ON THE CALCULATIONS IN AUDIT EXHIBIT**
14 **DFS-1 – OPERATING EXPERIENCE, RATE BASE AND RATES OF**
15 **RETURN - COMBINED.**

16 A. Column (1) shows the per books operating experience of TCWS which reflect Total
17 Operating Revenues of \$957,892, Total Operating Expenses of \$915,315, and Net
18 Income for Return of \$42,657. Per Book Total Rate Base amounted to \$2,127,599
19 and the resultant per book Return on Rate Base was 2.00%.

20 Column (2) shows additional adjustments from Docket No. 1996-137-W/S resulting
21 in a decrease in expenses of (\$45,766) and a decrease in rate base of (\$546,559).

1 In column (3), the adjusted per books Total Operating Revenues amounted to
2 \$957,892, Total Operating Expenses were \$869,549, Net Income for Return was
3 \$88,423 and Total Rate Base was \$1,581,040. The resultant computation produced a
4 Return on Rate Base of 5.59%.

5 Column (4) reflects our accounting and pro forma adjustments recorded to normalize
6 TCWS's test year operations. A description of each adjustment is contained in Audit
7 Exhibit DFS- 4.

8 Column (5) is the sum of Columns (3) and (4) and reflects the "As Adjusted Present"
9 or normalized amounts. The accounting and pro forma adjustments produced Total
10 Revenues of \$959,758, Total Operating Expenses of \$842,334, Net Income for
11 Return of \$118,801 and Total As Adjusted Present Rate Base of \$1,839,858. A
12 Return on Rate Base of 6.46% was computed using the above amounts.

13 Column (6) reflects the proposed increase by TCWS and its related effect on
14 expenses. These adjustments are detailed in Audit Exhibit DFS – 4.

15 Column (7) shows per book operations, adjusted for accounting and pro forma
16 adjustments and the requested increase. Using Total Operating Revenues of
17 \$1,156,935 less Total Operating Expenses of \$919,129 and adding Customer Growth
18 of \$2,785, Net Income for Return of \$240,591 was computed. Total Rate Base
19 amounted to \$1,839,858, computing a Return on Rate Base of 13.08%.

20 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT DFS - 4.**

21 A. The adjustments are as follows:

Adjustments Nos. 1 - 7 – Additional Adjustments – Docket No. 1996-137-W/S

These adjustments were recorded as a result of Docket No. 1996-137-W/S and included the removal of wells, removal of the plant acquisition adjustment, calculation of federal and state income taxes, and calculation of interest expense to reflect the removals.

Adjustment No. 8 – Operating Revenues

The ORS Water/Wastewater Department proposes to adjust the revenues using billing information for the test year ended September 30, 2005. The ORS Water/Wastewater Department provided the revenue figures for TCWS. The As Adjusted Present – Service Revenues computed by the ORS Water/Wastewater Department totaled \$959,758 less the per book amount of \$957,892, for an adjustment of \$1,866 (water - \$132 and sewer - \$1,734).

Adjustment No. 9 – Operators’ Salaries and Wages

ORS and TCWS propose to adjust operators’ salaries. ORS annualized wages using wage rates in effect as of May 2006 and the latest available wage allocations as of September 30, 2005. ORS computed annualized wages of \$117,281 less per book wages of \$113,405 for an adjustment of \$3,876. ORS did not include a 4% cost of living increase proposed by TCWS as these amounts were not known and measurable at the end of the audit. TCWS annualized operators’ salaries as of December 31, 2005 and included a 4% wage increase.

Adjustment No. 10 – Deferred Maintenance Charges

TCWS proposes to adjust maintenance for deferred charges. TCWS proposes to defer three projects totaling \$124,800 over 5 years resulting in annual deferred maintenance charges of \$24,960. ORS does not recommend including the deferred maintenance charges in the calculation of Net Income for Return since the projects were not started and expenses were not incurred during the test year.

Adjustment No. 11 – Operating Expense Charged to Plant

ORS and TCWS propose to charge a portion of operators' salaries, taxes and benefits to plant for time operators spent on capital projects. ORS applied 12.53% to the total annualized operators' salaries, taxes and benefits of \$148,595 for total annualized maintenance expense charged to plant of (\$18,619), less the per book amount of (\$17,957) for an adjustment of (\$662). ORS computed 12.53% using actual test year operating expenses charged to plant divided by operators' test year salaries, taxes and benefits (\$17,957 / \$143,297). TCWS used a capitalization ratio of 11.58% which was computed using annualized salaries, taxes, and benefits.

Adjustment No.12 - Office Salaries

ORS and TCWS propose to adjust office salaries. ORS annualized wages using rates as of May 2006 and the latest available wage allocations as of September 30, 2005. ORS did not include the 4% cost of living increase proposed by TCWS since these amounts were not known and measurable at the end of the audit. ORS computed office salaries of \$61,426 less the per book amount of \$52,865 for an

1 adjustment of \$8,561. TCWS annualized office salaries as of December 31, 2005
2 and included a 4% wage increase.

3 Adjustment No. 13 – Rate Case Expenses

4 ORS and TCWS propose to amortize rate case expenses over a three-year period.
5 ORS adjusted for actual current rate case expenses as of July 19, 2006 in the
6 amount of \$67,195. This amount was amortized over three years resulting in test
7 year expenses of \$22,398. The current rate case expenses include TCWS's portion
8 of the cost of the Utilities, Inc. management audit approved by the PSC in Docket
9 No. 2004-357-W/S. Other expenses are for legal and consulting fees, postage,
10 printing, and direct time spent on the case by the corporate office staff. TCWS
11 proposes to amortize total estimated rate case expense of \$172,160 over three years
12 in the amount of \$57,387.

13 Adjustment No.14 – Annualize Pension and Other Benefits

14 ORS and TCWS propose to annualize pension and other benefits associated with the
15 wage adjustment for operators and office employees. ORS did not include pension
16 and benefits for part-time employees as TCWS does not pay benefits to these
17 employees. The total ORS computed pension and other benefits were \$33,668 less
18 the per book amount of \$31,858 resulting in an adjustment of \$1,810. ORS
19 capitalized a portion of these costs for operators in expenses charged to plant
20 (Adjustment #11) and capitalized wages, taxes and benefits (Adjustment #26).
21 TCWS computed an adjustment of (\$1,946) using computed annualized wages.
22

1 Adjustment No.15 – Nonallowable Expenses

2 ORS proposes to remove one half of Chamber of Commerce Dues (\$260) and a
3 7 day personal newspaper subscription (\$143) to the Charlotte Observer, for total
4 nonallowable expenses for ratemaking purposes of (\$403).

5 Adjustment No. 16 Depreciation Expense

6 ORS and TCWS propose to annualize depreciation expense. ORS used gross plant
7 for the test year of \$12,042,383 and plant additions of \$242,356, which includes pro
8 forma plant, retirements, capitalized time, and general ledger additions as of June
9 2006 totaling \$241,694, and salaries charged to plant of \$662 (see Adjustments #11
10 and #26). ORS adjusted this amount by removing organization, land, vehicles and
11 wells, resulting in net plant, depreciated at 1.5% or 66.7 years. ORS depreciated net
12 vehicles at 25% or 4 years and included adjustments for the WSC rate base
13 depreciation, regional office allocation depreciation, and the extraordinary retirement
14 of wells. ORS total depreciation expense amounted to \$209,526 less the per book
15 amount of \$245,264 for a total adjustment of (\$35,738). TCWS computed
16 depreciation expense using gross plant for the test year and estimated pro forma
17 projects (net of retirements), general ledger additions, and capitalized time additions.
18 TCWS's adjustment was calculated using a 1.5% depreciation rate or 66.7 years to
19 depreciate plant. TCWS's adjustment amounted to (\$26,984). See Audit Exhibit
20 DFS – 5 for details of the ORS depreciation expense adjustment.

Adjustment No. 17 – Payroll Taxes

ORS and TCWS propose to adjust for payroll taxes associated with the wage adjustment. The payroll taxes include FICA, SUTA, and FUTA taxes. ORS computed taxes of \$13,909, less the per book amount of \$14,009, resulting in an adjustment of (\$100). TCWS calculated an adjustment of \$565 for payroll taxes.

Adjustment No. 18 – Property Taxes

ORS and TCWS propose to remove an accrual of (\$81,529) from property taxes to reflect the proper total for the test year.

Adjustment No. 19 – Income Taxes – State

ORS and TCWS propose to adjust state income taxes after accounting and pro forma adjustments. ORS and TCWS used a 5% rate for state income taxes. See Audit Exhibit DFS – 6.

Adjustment No. 20 – Income Taxes – Federal

ORS and TCWS propose to adjust federal income taxes after accounting and pro forma adjustments. ORS and TCWS used a composite rate of 35% for federal income taxes. See Audit Exhibit DFS – 6.

Adjustment No. 21 – Amortization of Plant Acquisition Adjustment

TCWS proposes to include an adjustment of \$5,210 for amortization of the plant acquisition adjustment. ORS does not propose an adjustment for amortization of the plant acquisition adjustment. ORS removed the plant acquisition adjustment in Adjustment #6 and will not include amortization of the plant acquisition adjustment since it was removed by TCWS and the PSC in Docket No. 1996-137-WS.

Adjustment No. 22 – Amortization of Contributions in Aid of Construction (CIAC)

ORS and TCWS propose to adjust the amortization of CIAC. ORS used the gross per book CIAC amount of (\$8,609,368) at 1.50% for an amortization amount of (\$129,141) less the per book amount of (\$171,782), for an adjustment of \$42,642. TCWS also proposes to use a 1.50% amortization rate for CIAC.

Adjustment No. 23 – Interest During Construction (IDC)

ORS and TCWS propose to remove the income associated with capitalized interest for projects under construction. TCWS does not propose to include construction work in progress (CWIP), and therefore, the income associated with CWIP is not included as an offset to expenses. The adjustment amounted to (\$80) for both ORS and TCWS.

Adjustment No. 24 – Customer Growth

ORS proposes to adjust for customer growth after the accounting and pro forma adjustments using customer units updated to June 2006 since plant additions are included up to that date. See Audit Exhibit DFS -7.

Adjustment No. 25 – Plant Additions

ORS and TCWS propose to adjust for plant additions. ORS adjusted for total verified general ledger additions, capitalized time additions, and pro forma additions and retirements as of June 2006 in the amount of \$241,694. This plant is known and measurable and providing service to present customers. TCWS proposes to adjust for estimated general ledger additions, capitalized time additions, and pro forma plant additions and retirements totaling \$313,409.

Adjustment No. 26 – Capitalized Wages, Taxes and Benefits

ORS proposes to book to plant the portion of operators' salaries, taxes, and benefits associated with capital projects in accordance with ORS's computed capitalization ratio of 12.53%. ORS capitalized wage adjustment amounted to \$662 as calculated in Adjustment #11.

Adjustment No. 27 - Accumulated Depreciation

ORS proposes to reduce accumulated depreciation for the annualized depreciation expense adjustment of \$35,738 and actual retired plant from October 2005 – June 2006 of \$18,919 for a total adjustment of \$54,657. TCWS proposes to reduce accumulated depreciation for estimated general ledger additions, actual and estimated capitalized time additions, and actual and estimated pro forma plant additions and retirements for an adjustment of \$12,380.

Adjustment No. 28 – Cash Working Capital

ORS and TCWS propose to adjust Cash Working Capital after accounting and pro forma adjustments. This adjustment reflects the working capital needed prospectively. ORS adjustment was \$4,447 and TCWS's adjustment was \$12,917.

Adjustment No. 29 – Contributions in Aid of Construction (CIAC)

ORS proposes to adjust CIAC to correctly state the unamortized portion of CIAC for rate base. TCWS's per books unamortized CIAC is calculated using a 2.0% amortization rate for the test year. Since both ORS and TCWS propose to amortize CIAC using a 1.5% amortization rate for the test year, the unamortized balance should be adjusted by the difference in per books amortization of CIAC and

1 calculated amortization of CIAC. Therefore, ORS proposes to adjust the CIAC by
2 (\$42,642) as calculated in Adjustment #22.

3 Adjustment No. 30 – Interest Expense

4 ORS and TCWS propose to adjust allowable interest expense to reflect the As
5 Adjusted Present Rate Base using the capitalization ratios of 59.10% for debt,
6 40.90% for equity and a cost of debt of 6.42%. ORS's adjustment is for \$9,821,
7 resulting in allowable interest expense of \$69,809. TCWS used its pro forma rate
8 base to compute an adjustment to interest expense of (\$83,468), for total interest
9 expense of \$83,633. See Audit Exhibit DFS – 9 for ORS's computed interest
10 expense.

11 Adjustment No. 31 – Operating Revenues - Proposed Increase

12 ORS and TCWS propose to adjust for the proposed increase to service revenues.
13 ORS proposes to adjust revenues by a total of \$197,830, comprised of \$52,993 for
14 water service and \$144,837 for sewer service. TCWS proposes to adjust revenues by
15 a total of \$197,199, comprised of \$52,368 for water service revenue and \$144,831 for
16 sewer service revenue.

17 Adjustment No. 32 – Uncollectible Accounts – Proposed Increase

18 ORS and TCWS propose to adjust for uncollectible revenue for the proposed
19 increase. ORS calculated uncollectible revenue of (\$653) associated with the
20 proposed revenues of \$197,830 using the uncollectible factor for the test year of
21 .33% for water and sewer. ORS Water/Wastewater Department verified that the

1 factors were reasonable based on their examination of the billing records. TCWS
2 calculated uncollectible revenue of (\$657).

3 Adjustment No. 33 – Taxes Other Than Income – Proposed Increase

4 ORS and TCWS propose to adjust utility/commission taxes and gross receipts taxes
5 associated with the proposed revenue. ORS used a factor of .0112524, which is
6 comprised of the Public Service Commission's and Office of Regulatory Staff's
7 factor of .0082524 and the Department of Revenue's factor of .003. ORS's total
8 adjustment is \$2,226 (\$197,830 x .0112524). TCWS's adjustment is \$2,215.

9 Adjustment No. 34 – Income Taxes – State - Proposed Increase

10 ORS and TCWS propose to adjust state income taxes for the Proposed Increase.
11 Both ORS and TCWS used a 5% rate for state income taxes. See Audit Exhibit
12 DFS – 6.

13 Adjustment No. 35 – Income Taxes – Federal - Proposed Increase

14 ORS and TCWS propose to adjust federal income taxes for the Proposed Increase.
15 Both ORS and TCWS used a composite rate of 35% for federal income taxes. See
16 Audit Exhibit DFS – 6.

17 Adjustment No. 36 – Customer Growth

18 ORS proposes to adjust for customer growth after the proposed increase using
19 customer units updated to June 2006 since plant additions are included to that date.
20 See Audit Exhibit DFS -7.

1 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

2 **A.** Audit Exhibit DFS-5 shows the depreciation expense adjustment. Audit Exhibit
3 DFS-6 shows the computation of income taxes. Audit Exhibit DFS-7 shows the
4 customer growth computation. Audit Exhibit DFS - 8 shows the cash working capital
5 allowance. Audit Exhibit DFS - 9 shows the return on common equity. Audit
6 Exhibit DFS - 10 shows the income statement for the test year ended September 30,
7 2005. Audit Exhibit DFS - 11 shows the balance sheet as of September 30, 2005.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes, it does.

10

REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-97-W/S

TEGA CAY WATER SERVICE, INC.

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-97-W/S

TEGA CAY WATER SERVICE, INC.

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REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-97-W/S

TEGA CAY WATER SERVICE, INC.

SYNOPSIS

Amount Requested - Water ----- \$52,993
- Sewer----- \$144,837
- Uncollectible Accounts----- (\$653)
- Combined----- \$197,177

<u>Return on Rate Base:</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
Per Books -----	2.00%	-1.39%	2.68%
Adjusted-Per Books -----	5.59%	24.35%	4.93%
As Adjusted-Present-----	6.46%	27.59%	5.57%
After Proposed Increase-----	13.08%	71.60%	10.62%

<u>Return on Common Equity:</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
As Adjusted-Present-----	6.51%	58.18%	4.34%
After Proposed Increase-----	22.70%	165.79%	16.69%

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-97-W/S

TEGA CAY WATER SERVICE, INC.

ANALYSIS

ORS has performed a review of the application of Tega Cay Water Service, Inc. (hereinafter referred to as "TCWS") along with certain TCWS accounting records, relative to its application for authority to increase certain rates and charges in Docket No. 2006-97-W/S.

TCWS is a water and wastewater utility operating in the state of South Carolina. TCWS furnishes both water and sewer service to residential and commercial customers in York county. TCWS's home office is located at 2335 Sanders Road, Northbrook, Illinois, 60062. Its regional office is located at 5701 West Park Drive, Suite 101, Charlotte, North Carolina, 28217. TCWS is a wholly-owned subsidiary of Utilities, Inc., which is also located at the same address in Northbrook, Illinois.

ORS respectfully submits the results of its review as follows:

1. TCWS filed an application on April 3, 2006 for approval of an increase in rates and charges for water and sewer services provided to its residential and commercial customers.
2. This matter is set for public hearing on Tuesday, August 22 and Wednesday, August 23, 2006 at 10:30 a.m.
3. TCWS's application uses a test year ending September 30, 2005.

ORS's exhibits related to TCWS's proposed increase are as follows:

**EXHIBIT DFS-1: OPERATING EXPERIENCE, RATE BASE, AND RATES OF RETURN-
COMBINED OPERATIONS**

Shown in this exhibit are TCWS's operating experience, rate base, and rates of return for the test year ended September 30, 2005. The exhibit's format is designed to reflect per book information, per books adjusted for adjustments generated by Docket No. 1996-137-W/S, and applicable accounting and pro forma adjustments necessary to correct or normalize the results of TCWS's test year operations.

ORS verified the per book balances to the books and records of TCWS. The per book figures reflect that Operating Revenues for TCWS totaled \$957,892 and Total Operating Income totaled \$42,577 plus interest during construction (IDC) of \$80, for Net Income for Return of \$42,657. TCWS's per book Total Rate Base was \$2,127,599. A per book Return on Rate Base of 2.00% was computed using Net Operating Income of \$42,657 and Total Rate Base of \$2,127,599. Per book numbers were adjusted to reflect adjustments from Docket No. 1996-137-W/S. As a result of these adjustments, Total Operating Revenues amounted to \$957,892, Net Income for Return was calculated to be \$88,423 and Total Rate Base was \$1,581,040. The resultant Return on Rate Base was 5.59% for adjusted per book operations. ORS's accounting and pro forma adjustments were added to adjusted per book operations and the net effect of these adjustments produced Total Operating Revenues of \$959,758, Net Income for Return of \$118,801, and a Total Rate Base of \$1,839,858. ORS computed a Return on Rate Base of 6.46% for as adjusted present operations using the Net Income for Return and Total Rate Base figures.

TCWS has requested an increase in rates which would produce additional net annual revenues of \$197,177, comprised of a water increase of \$52,993, a sewer increase of \$144,837, and uncollectible revenue of (\$653). ORS adjusted utility/commission gross receipts taxes, income taxes

and customer growth for the proposed increase.

After the proposed increase, Total Operating Revenues were \$1,156,935 and Net Income for Return was \$240,591. Total Rate Base after the proposed increase was \$1,839,858. Using Net Income for Return and Total Rate Base after the proposed increase, ORS computed a Return on Rate Base of 13.08%.

**EXHIBIT DFS-2: OPERATING EXPERIENCE, RATE BASE AND RATES OF RETURN-
WATER OPERATIONS**

Shown in this ORS exhibit are the operating experience, rate base, and rates of return for TCWS's water operations.

**EXHIBIT DFS-3: OPERATING EXPERIENCE, RATE BASE, AND RATES OF RETURN-
SEWER OPERATIONS**

Shown in this ORS exhibit are the operating experience, rate base, and rates of return for TCWS's sewer operations.

**EXHIBIT DFS-4: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS-
COMBINED, WATER, AND SEWER**

Shown in this exhibit are the details of accounting and pro forma adjustments made to correct or normalize TCWS's water and sewer operations and to reflect the proposed increase. For comparative purposes, ORS and TCWS's adjustments are both presented in this exhibit.

EXHIBIT DFS-5: DEPRECIATION EXPENSE ADJUSTMENT

Shown in this exhibit are ORS's computations of the adjustments to depreciation expense and the amortization of contributions in aid of construction (CIAC). The depreciation rate of 1.5% (66.7 years) was used for plant in service and 25% (4 years) was used for vehicles as recommended by ORS Water/Wastewater Department.

EXHIBIT DFS-6: COMPUTATION OF INCOME TAXES

Shown in this exhibit are ORS's computations of state and federal income taxes based on taxable income after the additional adjustments from Docket No. 1996-137-W/S, after the accounting and pro forma adjustments and after the proposed increase. ORS and TCWS used the state income tax rate of 5% and composite federal income tax rate of 35%.

EXHIBIT DFS-7: CUSTOMER GROWTH COMPUTATION

Shown in this exhibit are the computations of TCWS's customer growth. ORS used the number of customer units at October 2004 and June 2006 to compute the growth factor. Since ORS proposes to include plant additions as of June 2006, the customer growth includes that period. ORS computed a growth factor of 1.14% for water operations and a growth factor of 1.18% for sewer operations. Combined customer growth was computed by adding water customer growth and sewer customer growth.

EXHIBIT DFS-8: CASH WORKING CAPITAL ALLOWANCE

Shown in this exhibit is the calculation of cash working capital based on as adjusted present operations at September 30, 2005. ORS uses a forty-five day cash working capital allowance since TCWS bills in arrears.

EXHIBIT DFS-9: RETURN ON COMMON EQUITY – COMBINED, WATER, AND SEWER

TCWS's return on common equity is computed both before and after the requested increase. The rate base, as shown on Audit Exhibit DFS-1, is allocated among the various classes of debt and equity according to the respective ratios computed using TCWS's parent company's capital structure as of September 30, 2005.

ORS computed the amount of total income for return necessary to cover an embedded cost rate of 6.42% on long-term debt. The remainder of total income for return for combined operations produces a return of 6.51% to common equity before the requested increase. The overall cost of

capital after accounting and pro forma adjustments is 6.46%. Such overall cost equals the return on rate base shown on Audit Exhibit DFS-1.

After the net requested increase of \$197,177, income available to common equity increases to \$170,782 and return on common equity increases to 22.70%. Overall cost of capital as shown in this exhibit equals 13.08%. Such overall cost of capital equals the return on rate base on Audit Exhibit DFS-1.

Included in this exhibit are the returns on common equity as allocated to TCWS's water and sewer operations.

EXHIBIT DFS-10: INCOME STATEMENT

TCWS's income statement for the test year ending September 30, 2005 is reflected in this exhibit. ORS verified the income statement to the books and records of TCWS.

EXHIBIT DFS-11: BALANCE SHEET

Shown in this exhibit is the balance sheet of TCWS as of September 30, 2005. ORS verified the balances contained in this statement to the books and records of TCWS.

Tega Cay Water Service, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2005
Combined Operations

Description	(1) Per Company Books \$	(2) Additional Adjustments Docket No. 1996-137-WS \$	(3) Adjusted Per Books \$	(4) Accounting and Pro Forma Adjustments \$	(5) As Adjusted Present \$	(6) Proposed Increase \$	(7) After Proposed Increase \$
Operating Revenues:							
Service Revenue - Water	346,686	0	346,686	132 (H)	346,818	52,993 (X)	399,811
Service Revenue - Sewer	600,216	0	600,216	1,734 (H)	601,950	144,837 (X)	746,787
Miscellaneous Revenues	14,148	0	14,148	0	14,148	0	14,148
Uncollectible Accounts	(3,158)	0	(3,158)	0	(3,158)	(653) (Y)	(3,811)
Total Operating Revenues	957,892	0	957,892	1,866	959,758	197,177	1,156,935
Operating Expenses:							
Maintenance Expenses	388,252	0	388,252	3,214 (I)	391,466	0	391,466
General Expenses	186,382	0	186,382	32,366 (J)	218,748	0	218,748
Depreciation Expense	245,264	0	245,264	(35,738) (K)	209,526	0	209,526
Taxes Other Than Income	206,869	(3,000) (A)	203,869	(81,629) (L)	122,240	2,226 (Z)	124,466
Income Taxes - State	1,338	958 (B)	2,296	1,559 (M)	3,855	9,748 (AA)	13,603
Income Taxes - Federal	58,992	(43,724) (C)	15,268	10,371 (N)	25,639	64,821 (AB)	90,460
Amortization of PAA	0	0	0	0 (O)	0	0	0
Amortization of CIAC	(171,782)	0	(171,782)	42,642 (P)	(129,140)	0	(129,140)
Total Operating Expenses	915,315	(45,766)	869,549	(27,215)	842,334	76,795	919,129
Total Operating Income	42,577	45,766	88,343	29,081	117,424	120,382	237,806
Interest During Construction	80	0	80	(80) (Q)	0	0	0
Customer Growth	0	0	0	1,377 (R)	1,377	1,408 (AC)	2,785
Net Income for Return	42,657	45,766	88,423	30,378	118,801	121,790	240,591
Original Cost Rate Base:							
Gross Plant in Service	12,042,383	(352,044) (D)	11,690,339	242,356 (S)	11,932,695	0	11,932,695
Accumulated Depreciation	(2,911,225)	90,318 (E)	(2,820,907)	54,657 (T)	(2,766,250)	0	(2,766,250)
Net Plant in Service	9,131,158	(261,726)	8,869,432	297,013	9,166,445	0	9,166,445
Cash Working Capital	71,830	0	71,830	4,447 (U)	76,277	0	76,277
Contributions in Aid of Construction	(6,815,144)	0	(6,815,144)	(42,642) (V)	(6,857,786)	0	(6,857,786)
Accumulated Deferred Income Taxes	(504,319)	0	(504,319)	0	(504,319)	0	(504,319)
Customer Deposits	(58,630)	0	(58,630)	0	(58,630)	0	(58,630)
Plant Acquisition Adjustment	284,833	(284,833) (F)	0	0	0	0	0
Water Service Corporation - Rate Base	17,871	0	17,871	0	17,871	0	17,871
Total Rate Base	2,127,599	(546,559)	1,581,040	258,818	1,839,858	0	1,839,858
Return on Rate Base	2.00%		5.59%		6.46%		13.08%
Interest Expense	167,102	(107,114) (G)	59,988	9,821 (W)	69,809		69,809

Tega Cay Water Service, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2005
Water Operations

Description	(1) Per Company Books \$	(2) Additional Adjustments Docket No. 1996-137-WS \$	(3) Adjusted Per Books \$	(4) Accounting and Pro Forma Adjustments \$	(5) As Adjusted Present \$	(6) Proposed Increase \$	(7) After Proposed Increase \$
Operating Revenues:							
Service Revenue - Water	346,686	0	346,686	132 (H)	346,818	52,993 (X)	399,811
Miscellaneous Revenues	6,343	0	6,343	0	6,343	0	6,343
Uncollectible Accounts	(1,146)	0	(1,146)	0	(1,146)	(175) (Y)	(1,321)
Total Operating Revenues	351,883	0	351,883	132	352,015	52,818	404,833
Operating Expenses:							
Maintenance Expenses	111,285	0	111,285	1,658 (I)	112,943	0	112,943
General Expenses	96,192	0	96,192	16,703 (J)	112,895	0	112,895
Depreciation Expense	64,638	0	64,638	2,374 (K)	67,012	0	67,012
Taxes Other Than Income	105,160	(3,000) (A)	102,160	(42,129) (L)	60,031	596 (Z)	60,627
Income Taxes - State	486	409 (B)	895	514 (M)	1,409	2,611 (AA)	4,020
Income Taxes - Federal	21,408	(15,454) (C)	5,954	3,416 (N)	9,370	17,364 (AB)	26,734
Amortization of PAA	0	0	0	0 (O)	0	0	0
Amortization of CIAC	(42,344)	0	(42,344)	10,485 (P)	(31,859)	0	(31,859)
Total Operating Expenses	356,825	(18,045)	338,780	(6,979)	331,801	20,571	352,372
Total Operating Income	(4,942)	18,045	13,103	7,111	20,214	32,247	52,461
Interest During Construction	20	0	20	(20) (Q)	0	0	0
Customer Growth	0	0	0	230 (R)	230	368 (AC)	598
Net Income for Return	(4,922)	18,045	13,123	7,321	20,444	32,615	53,059
Original Cost Rate Base:							
Gross Plant in Service	3,003,103	(352,044) (D)	2,651,059	22,926 (S)	2,673,985	0	2,673,985
Accumulated Depreciation	(731,857)	90,318 (E)	(641,539)	5,470 (T)	(636,069)	0	(636,069)
Net Plant in Service	2,271,246	(261,726)	2,009,520	28,396	2,037,916	0	2,037,916
Cash Working Capital	25,935	0	25,935	2,295 (U)	28,230	0	28,230
Contributions in Aid of Construction	(1,686,534)	0	(1,686,534)	(10,485) (V)	(1,697,019)	0	(1,697,019)
Accumulated Deferred Income Taxes	(273,990)	0	(273,990)	0	(273,990)	0	(273,990)
Customer Deposits	(30,259)	0	(30,259)	0	(30,259)	0	(30,259)
Plant Acquisition Adjustment	39,157	(39,157) (F)	0	0	0	0	0
Water Service Corporation - Rate Base	9,223	0	9,223	0	9,223	0	9,223
Total Rate Base	354,778	(300,883)	53,895	20,206	74,101	0	74,101
Return on Rate Base	-1.39%		24.35%		27.59%		71.60%
Interest Expense	41,993	(39,948) (G)	2,045	767 (W)	2,812		2,812

Tega Cay Water Service, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2005
Sewer Operations

<u>Description</u>	(1) <u>Per Company Books</u> \$	(2) <u>Additional Adjustments Docket No. 1996-137-WS</u> \$	(3) <u>Adjusted Per Books</u> \$	(4) <u>Accounting and Pro Forma Adjustments</u> \$	(5) <u>As Adjusted Present</u> \$	(6) <u>Proposed Increase</u> \$	(7) <u>After Proposed Increase</u> \$
<u>Operating Revenues:</u>							
Service Revenue - Sewer	600,216	0	600,216	1,734 (H)	601,950	144,837 (X)	746,787
Miscellaneous Revenues	7,805	0	7,805	0	7,805	0	7,805
Uncollectible Accounts	(2,012)	0	(2,012)	0	(2,012)	(478) (Y)	(2,490)
Total Operating Revenues	606,009	0	606,009	1,734	607,743	144,359	752,102
<u>Operating Expenses:</u>							
Maintenance Expenses	276,967	0	276,967	1,556 (I)	278,523	0	278,523
General Expenses	90,190	0	90,190	15,663 (J)	105,853	0	105,853
Depreciation Expense	180,626	0	180,626	(38,112) (K)	142,514	0	142,514
Taxes Other Than Income	101,709	0 (A)	101,709	(39,500) (L)	62,209	1,630 (Z)	63,839
Income Taxes - State	852	549 (B)	1,401	1,045 (M)	2,446	7,137 (AA)	9,583
Income Taxes - Federal	37,584	(28,270) (C)	9,314	6,955 (N)	16,269	47,457 (AB)	63,726
Amortization of PAA	0	0	0	0 (O)	0	0	0
Amortization of CIAC	(129,438)	0	(129,438)	32,157 (P)	(97,281)	0	(97,281)
Total Operating Expenses	558,490	(27,721)	530,769	(20,236)	510,533	56,224	566,757
Total Operating Income	47,519	27,721	75,240	21,970	97,210	88,135	185,345
Interest During Construction	60	0	60	(60) (Q)	0	0	0
Customer Growth	0	0	0	1,147 (R)	1,147	1,040 (AC)	2,187
Net Income for Return	47,579	27,721	75,300	23,057	98,357	89,175	187,532
<u>Original Cost Rate Base:</u>							
Gross Plant in Service	9,039,280	0 (D)	9,039,280	219,430 (S)	9,258,710	0	9,258,710
Accumulated Depreciation	(2,179,368)	0 (E)	(2,179,368)	49,187 (T)	(2,130,181)	0	(2,130,181)
Net Plant in Service	6,859,912	0	6,859,912	268,617	7,128,529	0	7,128,529
Cash Working Capital	45,895	0	45,895	2,152 (U)	48,047	0	48,047
Contributions in Aid of Construction	(5,128,610)	0	(5,128,610)	(32,157) (V)	(5,160,767)	0	(5,160,767)
Accumulated Deferred Income Taxes	(230,329)	0	(230,329)	0	(230,329)	0	(230,329)
Customer Deposits	(28,371)	0	(28,371)	0	(28,371)	0	(28,371)
Plant Acquisition Adjustment	245,676	(245,676) (F)	0	0	0	0	0
Water Service Corporation - Rate Base	8,648	0	8,648	0	8,648	0	8,648
Total Rate Base	1,772,821	(245,676)	1,527,145	238,612	1,765,757	0	1,765,757
Return on Rate Base	2.68%		4.93%		5.57%		10.62%
Interest Expense	125,109	(67,166) (G)	57,943	9,054 (W)	66,997		66,997

Tega Cay Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<u>Adjustments From Docket No. 1996-137-WS</u>			
<u>(A) Taxes Other Than Income</u>			
1 ORS proposes to remove property taxes associated with wells no longer used and useful.			
Per ORS	(3,000)	(3,000)	0
Per TCWS	0	0	0
<u>(B) Income Taxes - State</u>			
2 ORS proposes to adjust for state income taxes due to the adjustments from Docket No. 1996-137-WS.			
Per ORS	958	409	549
Per TCWS	0	0	0
<u>(C) Income Taxes - Federal</u>			
3 ORS propose to adjust for federal income taxes due to the adjustments from Docket No. 1996-137-WS.			
Per ORS	(43,724)	(15,454)	(28,270)
Per TCWS	0	0	0
<u>(D) Gross Plant In Service</u>			
4 ORS and TCWS propose to adjust plant in service by (\$352,044) for the removal of wells deemed not used and useful.			
Per ORS	(352,044)	(352,044)	0
Per TCWS	(352,044)	(352,044)	0
<u>(E) Accumulated Depreciation</u>			
5 ORS and TCWS propose to adjust accumulated depreciation by \$90,318 for the removal of wells deemed not used and useful.			
Per ORS	90,318	90,318	0
Per TCWS	90,318	90,318	0

Tega Cay Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
(F) Plant Acquisition Adjustment			
6 ORS proposes to remove the plant acquisition adjustment since it was removed by staff and TCWS and approved by the PSC in the previous rate case proceeding.			
Per ORS	(284,833)	(39,157)	(245,676)
Per TCWS	0	0	0

(G) Interest on Debt			
7 ORS proposes to adjust interest on debt using a 59.10% / 40.90% debt / equity ratio and a 6.42% cost of debt. ORS proposes to compute allowable interest expense as adjusted per books.			
Per ORS	(107,114)	(39,948)	(67,166)
Per TCWS	0	0	0

Accounting and Pro Forma Adjustments

(H) Operating Revenues

8 ORS and TCWS propose to adjust test year operating revenues to agree with test year consumption data.			
Per ORS	1,866	132	1,734
Per TCWS	1,765	24	1,741

(I) Maintenance Expenses

9 ORS and TCWS propose to adjust operators' salaries. ORS proposes to annualize operators' salary expenses using wage rates as of May 2006 and wage allocation factors as of September 2005. ORS did not include a 4% cost of living increase since this amount was not known and measurable at the end of the audit. TCWS included a 4% cost of living increase.			
Per ORS	3,876	2,000	1,876
Per TCWS	11,183	5,770	5,413

Tega Cay Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
10 TCWS proposes to amortize deferred operations and maintenance charges over 5 years. ORS does not propose to amortize deferred operations and maintenance charges since projects were not started and expenses were not incurred during the test year.			
Per ORS	0	0	0
Per TCWS	24,960	24,960	0
11 ORS and TCWS propose to adjust operating expense charged to plant to reflect the proposed increase in the wage adjustment. ORS computed a factor of 12.53% using actual test year data. TCWS used a capitalization factor of 11.58% which was based on annualized wages.			
Per ORS	(662)	(342)	(320)
Per TCWS	310	160	150
<u>Total Maintenance Expenses</u>	<u>3,214</u>	<u>1,658</u>	<u>1,556</u>

(J) General Expenses

12 ORS and TCWS propose to adjust office salary expenses. ORS annualized salaries using wage rates as of May 2006 and wage allocations as of September 2005. ORS did not include a 4% cost of living increase since this amount was not known and measurable at the end of the audit. TCWS included a 4% cost of living increase.

Per ORS	8,561	4,418	4,143
Per TCWS	11,447	5,907	5,540

13 ORS and TCWS propose to include current rate case expenses amortized over a three-year period. ORS proposes to include TCWS's portion of the Utilities Management Audit costs amortized over a three-year period. ORS adjusted rate case expenses for actual expenses documented as of July 19, 2006.

Per ORS	22,398	11,559	10,839
Per TCWS	57,387	29,617	27,770

Tega Cay Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
14 ORS and TCWS propose to adjust for pension and other benefits associated with the wage increase.			
Per ORS	1,810	934	876
Per TCWS	(1,946)	(1,005)	(941)
15 ORS proposes to remove one half of Chamber of Commerce dues (\$260) and a 7 day personal newspaper subscription (\$143) to the Charlotte Observer, for total nonallowable expenses for ratemaking purposes of (\$403).			
Per ORS	(403)	(208)	(195)
Per TCWS	0	0	0
<u>Total General Expenses</u>	<u>32,366</u>	<u>16,703</u>	<u>15,663</u>
<u>(K) Depreciation Expense</u>			
16 TCWS proposes to annualize depreciation expense using estimated plant additions and a 1.5% depreciation rate. ORS proposes to annualize depreciation expense for known and measurable plant in service using a 1.5% depreciation rate. Both TCWS and ORS include extraordinary retirement of the wells as part of the adjustment to depreciation expense. See Audit Exhibit DFS-5 for details.			
Per ORS	<u>(35,738)</u>	<u>2,374</u>	<u>(38,112)</u>
Per TCWS	<u>(26,984)</u>	<u>8,945</u>	<u>(35,929)</u>
<u>(L) Taxes Other Than Income</u>			
17 ORS and TCWS propose to adjust for payroll taxes associated with the wage adjustment.			
Per ORS	(100)	(52)	(48)
Per TCWS	565	291	274
18 ORS and TCWS propose to remove a tax accrual for property taxes to reflect actual test year expense.			
Per ORS	(81,529)	(42,077)	(39,452)
Per TCWS	<u>(81,529)</u>	<u>(42,077)</u>	<u>(39,452)</u>
<u>Total Taxes Other Than Income</u>	<u>(81,629)</u>	<u>(42,129)</u>	<u>(39,500)</u>

Tega Cay Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<u>(M) Income Taxes - State - As Adjusted</u>			
19 ORS and TCWS propose to adjust state income taxes after accounting and pro forma adjustments. See Audit Exhibit DFS - 6.			
Per ORS	1,559	514	1,045
Per TCWS	(2,585)	(2,266)	(319)
<u>(N) Income Taxes - Federal - As Adjusted</u>			
20 ORS and TCWS propose to adjust federal income taxes after accounting and pro forma adjustments. See Audit Exhibit DFS - 6.			
Per ORS	10,371	3,416	6,955
Per TCWS	(67,282)	(33,247)	(34,035)
<u>(O) Amortization of Plant Acquisition Adjustment</u>			
21 TCWS proposes to include amortization expense of \$5,210 associated with a request for a plant acquisition adjustment. ORS does not propose an amortization adjustment since ORS proposes to remove the plant acquisition adjustment.			
Per ORS	0	0	0
Per TCWS	5,210	716	4,494
<u>(P) Amortization of Contributions in Aid of Construction (CIAC)</u>			
22 ORS and TCWS propose to annualize amortization of CIAC as of September 30, 2005. The purpose of this adjustment is to properly calculate amortization expense associated with CIAC. ORS and TCWS amortized CIAC using a 1.5% rate.			
Per ORS	42,642	10,485	32,157
Per TCWS	45,369	11,394	33,975

Tega Cay Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<u>(Q) Interest During Construction (IDC)</u>			
23 TCWS and ORS propose to eliminate IDC for rate making purposes. TCWS and ORS did not include construction work in progress in rate base and therefore IDC is eliminated as an addition to net income.			
Per ORS	(80)	(20)	(60)
Per TCWS	(80)	(20)	(60)
<u>(R) Customer Growth</u>			
24 ORS proposes to adjust for customer growth after accounting and pro forma adjustments. ORS used customer units as of June 2006, since plant additions have been included to that time period. See Audit Exhibit DFS -7.			
Per ORS	1,377	230	1,147
Per TCWS	0	0	0
<u>(S) Gross Plant In Service</u>			
25 ORS and TCWS propose to adjust for pro forma plant additions and retirements. TCWS adjustment is based on estimated general ledger additions, capitalized time additions and pro forma plant additions and retirements. ORS adjustment is based on known and measurable plant in service including general ledger additions, capitalized time additions and pro forma additions and retirements as of June 2006.			
Per ORS	241,694	22,584	219,110
Per TCWS	313,409	91,084	222,325
26 ORS proposes to capitalize wages, taxes, and benefits as a result of the payroll adjustment. ORS capitalized 12.53% of the wage adjustment.			
Per ORS	662	342	320
Per TCWS	0	0	0
<u>Total Gross Plant In Service</u>	242,356	22,926	219,430

Tega Cay Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
(T) Accumulated Depreciation			
27 TCWS proposes to adjust accumulated depreciation using estimated plant additions and retirements. ORS proposes to reduce accumulated depreciation for the annualized depreciation expense adjustment of \$35,738 and actual retirements from October 2005 - June 2006 of \$18,919.			
Per ORS	<u>54,657</u>	<u>5,470</u>	<u>49,187</u>
Per TCWS	<u>12,380</u>	<u>15,992</u>	<u>(3,612)</u>
(U) Cash Working Capital			
28 TCWS and ORS propose to adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit DFS-8.			
Per ORS	<u>4,447</u>	<u>2,295</u>	<u>2,152</u>
Per TCWS	<u>12,917</u>	<u>8,176</u>	<u>4,741</u>
(V) Contributions in Aid of Construction			
29 ORS proposes to adjust contributions in aid of construction to reflect the difference in amortization using a 1.5% amortization rate versus a 2% amortization rate.			
Per ORS	<u>(42,642)</u>	<u>(10,485)</u>	<u>(32,157)</u>
Per TCWS	<u>0</u>	<u>0</u>	<u>0</u>
(W) Interest Expense			
30 ORS and TCWS propose to adjust interest on debt using a 59.10% / 40.90% debt / equity ratio and a 6.42% cost of debt. ORS proposes to compute allowable interest expense as adjusted present and after the proposed increase rate base. See Audit Exhibit DFS -9.			
Per ORS	<u>9,821</u>	<u>767</u>	<u>9,054</u>
Per TCWS	<u>(83,468)</u>	<u>(34,091)</u>	<u>(49,377)</u>

Tega Cay Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>(X) Operating Revenues - Proposed Increase</u>			
31 ORS and TCWS propose an increase in operating revenues.			
Per ORS	<u>197,830</u>	<u>52,993</u>	<u>144,837</u>
Per TCWS	<u>197,199</u>	<u>52,368</u>	<u>144,831</u>
<u>(Y) Uncollectible Accounts - Proposed Increase</u>			
32 ORS and TCWS propose to adjust uncollectible accounts expense for the proposed revenue using an uncollectible rate of .33% for water and sewer.			
Per ORS	<u>(653)</u>	<u>(175)</u>	<u>(478)</u>
Per TCWS	<u>(657)</u>	<u>(173)</u>	<u>(484)</u>
<u>(Z) Taxes Other Than Income - Proposed Increased</u>			
33 ORS and TCWS propose to adjust utility/commission tax (.0082524) and gross receipts taxes (.003) for the proposed revenue using a combined factor of .011254.			
Per ORS	<u>2,226</u>	<u>596</u>	<u>1,630</u>
Per TCWS	<u>2,215</u>	<u>588</u>	<u>1,627</u>
<u>(AA) Income Taxes - State - Proposed Increase</u>			
34 TCWS records income taxes using current tax rates on calculated taxable income. ORS proposes to compute income taxes after the proposed increase.			
Per ORS	<u>9,748</u>	<u>2,611</u>	<u>7,137</u>
Per TCWS	<u>9,716</u>	<u>2,580</u>	<u>7,136</u>
<u>(AB) Income Taxes - Federal - Proposed Increase</u>			
35 TCWS records income taxes using current tax rates on calculated taxable income. ORS proposes to compute income taxes after the proposed increase.			
Per ORS	<u>64,821</u>	<u>17,364</u>	<u>47,457</u>
Per TCWS	<u>64,614</u>	<u>17,159</u>	<u>47,455</u>

Tega Cay Water Service, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2005

<u>Description</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
(AC) Customer Growth			
36 ORS proposes to adjust customer growth for the effect of the proposed increase. ORS used customer units as of June 2006, since plant additions have been extended to that time period. See Audit Exhibit DFS -7.			
Per ORS	1,408	368	1,040
Per TCWS	0	0	0

AUDIT EXHIBIT DFS-5

Tega Cay Water Service, Inc.
Depreciation Expense Adjustment
Test Year Ended September 30, 2005

	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<u>Gross Plant @ September 30, 2005</u>	12,042,383	3,003,103	9,039,280
ADD:			
Pro Forma Plant, Retirements, Capitalized Time and General Ledger Additions as of June 2006	242,356	22,926	219,430
LESS:			
Organization	(244,495)	(125,040)	(119,455)
Land	(8,989)	(1,869)	(7,120)
Vehicles	(97,606)	(50,374)	(47,232)
Wells	(352,044)	(352,044)	0
Net Plant	11,581,605	2,496,702	9,084,903
Plant Depreciation @ 1.5% (66.7 years)	173,725	37,451	136,274
Vehicles as of June 2006	97,606	50,374	47,232
Less: Fully Depreciated Vehicles	(61,529)	(31,755)	(29,774)
	36,077	18,619	17,458
Vehicle Depreciation @ 25% (4 years)	9,019	4,655	4,364
WSC Depreciation Allocation	2,792	1,441	1,351
Regional Office Depreciation Allocation	1,084	559	525
Extraordinary Retirement (Wells)	22,906	22,906	0
Total Depreciation	209,526	67,012	142,514
Less: Per Books Depreciation	245,264	64,638	180,626
ORS Adjustment	(35,738)	2,374	(38,112)
Company's Adjustment	(26,984)	8,945	(35,929)
Contributions in Aid of Construction			
CIAC @ September 30, 2005	(8,609,368)	(2,123,950)	(6,485,418)
Amortization %	1.50%	1.50%	1.50%
Amortization Amount	(129,141)	(31,859)	(97,281)
Per Book Amount	(171,782)	(42,344)	(129,438)
ORS Adjustment	42,642	10,485	32,157
Company's Adjustment	45,369	11,394	33,975

Audit Exhibit DFS-6

**Tega Cay Water Service, Inc.
Computation of Income Taxes
For the Test Year Ended September 30, 2005**

	As Adjusted - Per Books		
	Combined Operations	Water Operations	Sewer Operations
Operating Revenue As Adjusted	957,892	351,883	606,009
Operating Expenses As Adjusted	<u>851,985</u>	<u>331,931</u>	<u>520,054</u>
Net Operating Income Before Taxes	105,907	19,952	85,955
Less: Annualized Interest Expense	<u>59,988</u>	<u>2,045</u>	<u>57,943</u>
Taxable Income - State	45,919	17,907	28,012
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	2,296	895	1,401
Less: State Income Taxes Per Book	<u>1,338</u>	<u>486</u>	<u>852</u>
Adjustment to State Income Taxes	<u>958</u>	<u>409</u>	<u>549</u>
Taxable Income - Federal	43,623	17,012	26,611
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	15,268	5,954	9,314
Less: Federal Income Taxes Per Book	<u>58,992</u>	<u>21,408</u>	<u>37,584</u>
Adjustment to Federal Income Taxes	<u>(43,724)</u>	<u>(15,454)</u>	<u>(28,270)</u>

	As Adjusted - Present		
	Combined Operations	Water Operations	Sewer Operations
Operating Revenue As Adjusted	959,758	352,015	607,743
Operating Expenses As Adjusted	<u>812,840</u>	<u>321,022</u>	<u>491,818</u>
Net Operating Income Before Taxes	146,918	30,993	115,925
Less: Annualized Interest Expense	<u>69,809</u>	<u>2,812</u>	<u>66,997</u>
Taxable Income - State	77,109	28,181	48,928
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	3,855	1,409	2,446
Less: State Income Taxes As Adjusted Per Book	<u>2,296</u>	<u>895</u>	<u>1,401</u>
Adjustment to State Income Taxes	<u>1,559</u>	<u>514</u>	<u>1,045</u>
Taxable Income - Federal	73,254	26,772	46,482
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	25,639	9,370	16,269
Less: Federal Income Taxes As Adjusted Per Book	<u>15,268</u>	<u>5,954</u>	<u>9,314</u>
Adjustment to Federal Income Taxes	<u>10,371</u>	<u>3,416</u>	<u>6,955</u>

Audit Exhibit DFS-6

**Tega Cay Water Service, Inc.
Computation of Income Taxes
For the Test Year Ended September 30, 2005**

	After Proposed Increase		
	Combined Operations	Water Operations	Sewer Operations
Operating Revenue After Proposed Increase	1,156,935	404,833	752,102
Operating Expenses After Proposed Increase	<u>815,066</u>	<u>321,618</u>	<u>493,448</u>
Net Operating Income Before Taxes	341,869	83,215	258,654
Less: Annualized Interest Expense	<u>69,809</u>	<u>2,812</u>	<u>66,997</u>
Taxable Income - State	272,060	80,403	191,657
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	13,603	4,020	9,583
Less: State Income Taxes As Adjusted - Present	<u>3,855</u>	<u>1,409</u>	<u>2,446</u>
Adjustment to State Income Taxes	<u>9,748</u>	<u>2,611</u>	<u>7,137</u>
Taxable Income - Federal	258,457	76,383	182,074
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	90,460	26,734	63,726
Less: Federal Income Taxes As Adjusted - Present	<u>25,639</u>	<u>9,370</u>	<u>16,269</u>
Adjustment to Federal Income Taxes	<u>64,821</u>	<u>17,364</u>	<u>47,457</u>

Audit Exhibit DFS-7

**Tega Cay Water Service, Inc.
Customer Growth Computation
Test Year Ended September 30, 2005**

<u>Combined Operations:</u>	(1) As Adjusted Present	(2) Effect of Proposed Increase	(3) After Increase
Description	\$	\$	\$
Water Customer Growth	230	368	598
Sewer Customer Growth	1,147	1,040	2,187
Combined Customer Growth	1,377	1,408	2,785

Number of Customer Units:

Beginning	3,407	Formula:			
Ending	3,487	Ending - Average	=	40	= 1.16%
Average	3,447	Average		3,447	

Water Operations:

Total Operating Income	20,214	32,247	52,461
Growth Factor	1.14%	1.14%	1.14%
Customer Growth	230	368	598

Number of Customer Units:

Beginning	1,738	Formula:			
Ending	1,778	Ending - Average	=	20	= 1.14%
Average	1,758	Average		1,758	

Sewer Operations:

Total Operating Income	97,210	88,135	185,345
Growth Factor	1.18%	1.18%	1.18%
Customer Growth	1,147	1,040	2,187

Number of Customer Units:

Beginning	1,669	Formula:			
Ending	1,709	Ending - Average	=	20	= 1.18%
Average	1,689	Average		1,689	

Note: Combined Customer Growth equals Water plus Sewer Customer Growth

Beginning Customer Units @ 10/2004

Ending Customer Units @ 6/2006

Audit Exhibit DFS-8

**Tega Cay Water Service, Inc.
Cash Working Capital Allowance
For the Test Year Ended September 30, 2005**

	Combined Operations	Water Operations	Sewer Operations
Maintenance Expenses - As Adjusted	391,466	112,943	278,523
General Expenses - As Adjusted	<u>218,748</u>	<u>112,895</u>	<u>105,853</u>
Total Expenses for Computation	610,214	225,838	384,376
Allowable Rate	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>
Computed Cash Working Capital - As Adjusted	76,277	28,230	48,047
Cash Working Capital - Per Books	<u>71,830</u>	<u>25,935</u>	<u>45,895</u>
Cash Working Capital Adjustment - ORS	<u>4,447</u>	<u>2,295</u>	<u>2,152</u>
Cash Working Capital Adjustment - CWS	<u>12,917</u>	<u>8,176</u>	<u>4,741</u>

Tega Cay Water Service, Inc.
Return on Common Equity
Capital Structure at September 30, 2005

Description	Combined				After Proposed Increase			
	Capital Structure	Ratio	Rate Base	Income For Return	Rate Base	Income For Return	Overall Cost/Return	Income For Return
		%					%	
Long-Term Debt	136,789,585	59.10%	1,087,356	69,809	1,087,356	69,809	3.79%	69,809
Common Equity	94,651,855	40.90%	752,502	48,992	752,502	48,992	3.79%	69,809
Totals	231,441,440	100.00%	1,839,858	118,801	1,839,858	118,801	9.29%	170,782
							13.08%	240,591

Description	Water				After Proposed Increase			
	Capital Structure	Ratio	Rate Base	Income For Return	Rate Base	Income For Return	Overall Cost/Return	Income For Return
		%					%	
Long-Term Debt	136,789,585	59.10%	43,794	2,812	43,794	2,812	3.79%	2,812
Common Equity	94,651,855	40.90%	30,307	17,632	30,307	17,632	3.79%	2,812
Totals	231,441,440	100.00%	74,101	20,444	74,101	20,444	67.81%	50,247
							71.60%	53,059

Description	Sewer				After Proposed Increase			
	Capital Structure	Ratio	Rate Base	Income For Return	Rate Base	Income For Return	Overall Cost/Return	Income For Return
		%					%	
Long-Term Debt	136,789,585	59.10%	1,043,562	66,997	1,043,562	66,997	3.79%	66,997
Common Equity	94,651,855	40.90%	722,195	31,360	722,195	31,360	3.79%	66,997
Totals	231,441,440	100.00%	1,765,757	98,357	1,765,757	98,357	6.83%	120,535
							10.62%	187,532

Note: ORS used Capital Structure of Parent Company @ 9/30/2005.

Audit Exhibit DFS-10

Tega Cay Water Service, Inc. Income Statement Test Year Ended September 30, 2005

	Combined \$	Water \$	Sewer \$
<u>Operating Revenues</u>			
Service Revenues - Water	346,686	346,686	0
Service Revenues - Sewer	600,216	0	600,216
Miscellaneous Revenues	14,148	6,343	7,805
Uncollectible Accounts	(3,158)	(1,146)	(2,012)
<u>Total Operating Revenues</u>	<u>957,892</u>	<u>351,883</u>	<u>606,009</u>
<u>Maintenance Expenses</u>			
Salaries and Wages	113,404	58,528	54,876
Purchased Power	51,569	14,361	37,208
Purchased Sewer & Water	(1,196)	(1,196)	0
Maintenance and Repair	189,535	20,422	169,113
Maintenance Testing	10,589	1,719	8,870
Meter Reading	10,091	10,091	0
Chemicals	14,669	7,571	7,098
Transportation	11,750	6,064	5,686
Operating Exp. Charged to Plant	(17,958)	(9,268)	(8,690)
Outside Services - Other	5,799	2,993	2,806
<u>Total</u>	<u>388,252</u>	<u>111,285</u>	<u>276,967</u>
<u>General Expenses</u>			
Salaries and Wages	52,865	27,284	25,581
Office Supplies & Other Office Exp.	20,422	10,540	9,882
Regulatory Commission Exp.	0	0	0
Pension & Other Benefits	31,858	16,442	15,416
Rent	4,466	2,305	2,161
Insurance	61,148	31,558	29,590
Office Utilities	9,165	4,730	4,435
Miscellaneous	6,458	3,333	3,125
<u>Total</u>	<u>186,382</u>	<u>96,192</u>	<u>90,190</u>
Depreciation	245,264	64,638	180,626
Taxes Other Than Income	206,869	105,160	101,709
Income Taxes - Federal	58,992	21,408	37,584
Income Taxes - State	1,338	486	852
Amortization of ITC	0	0	0
Amortization of PAA	0	0	0
Amortization of CIAC	(171,782)	(42,344)	(129,438)
<u>Total</u>	<u>340,681</u>	<u>149,348</u>	<u>191,333</u>
<u>Total Operating Expenses</u>	<u>915,315</u>	<u>356,825</u>	<u>558,490</u>
<u>Net Operating Income</u>	<u>42,577</u>	<u>(4,942)</u>	<u>47,519</u>
Interest During Construction	(80)	(20)	(60)
Interest on Debt	167,102	41,993	125,109
<u>Net Income</u>	<u>(124,445)</u>	<u>(46,915)</u>	<u>(77,530)</u>

Audit Exhibit DFS-11

Tega Cay Water Service, Inc.
Balance Sheet
September 30, 2005

<u>Assets</u>		
Plant In Service		
Water	3,003,103	
Sewer	9,039,280	
Total		12,042,383
Accumulated Depreciation - Water	(731,857)	
Accumulated Depreciation - Sewer	(2,179,368)	
Total		(2,911,225)
Net Utility Plant		9,131,158
Plant Acquisition Adjustment - Water	39,157	
Plant Acquisition Adjustment - Sewer	245,676	
Total		284,833
Construction Work In Process - Water	0	
Construction Work In Process - Sewer	0	
Total		0
Current Assets		
Cash	0	
Accounts Receivable - Net	144,432	
Other Current Assets	276	
Total		144,708
Deferred Charges		723
	<u>Total Assets</u>	<u>9,561,422</u>
<u>Liabilities and Other Credits</u>		
Capital Stock and Retained Earnings		
Common Stock and Paid In Capital	2,606,917	
Retained Earnings	378,199	
Total		2,985,116
Current and Accrued Liabilities		
Accounts Payable - Trade	32,350	
Taxes Accrued	88,663	
Customer Deposits	58,630	
Customer Deposits - Interest	27,388	
A/P - Associated Companies	(950,188)	
Total		(743,157)
Advances In Aid of Construction		
Water	0	
Sewer	0	
Total		0
Contributions In Aid of Construction		
Water	1,686,534	
Sewer	5,128,610	
Total		6,815,144
Accumulated Deferred Income Tax		
Unamortized ITC	0	
Deferred Tax - Federal	517,970	
Deferred Tax - State	(13,653)	
Total		504,317
	<u>Total Liabilities and Other Credits</u>	<u>9,561,420</u>